

NPS-CS-12-002



NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

BEHAVIORAL AND TEMPORAL PATTERN DETECTION WITHIN FINANCIAL DATA WITH HIDDEN INFORMATION

by

Doron Drusinsky

February 2012

Approved for public release; distribution is unlimited

Prepared for: Defense Threat Reduction Agency (DTRA) -
8725 John J Kingman Rd., Stop 6201 (RD-BAT), Fort Belvoir
VA 22060-6201

THIS PAGE INTENTIONALLY LEFT BLANK

NAVAL POSTGRADUATE SCHOOL
Monterey, California 93943-5000

Daniel T. Oliver
President

Leonard A. Ferrari
Executive Vice President and
Provost

The report entitled “*Behavioral and Temporal Pattern Detection within Financial Data with Hidden Information*” was prepared for and funded by the Defense Threat Reduction Agency (DTRA).

Further distribution of all or part of this report is authorized.

This report was prepared by:

Doron Drusinsky
Associate Professor
Department of Computer Science

Reviewed by:

Peter Denning
Chairman
Department of Computer Science

Released by:

Douglas Fouts
Interim Vice President and Dean of Research

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE				<i>Form Approved</i> <i>OMB No. 0704-0188</i>	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.					
1. REPORT DATE February 2012		2. REPORT TYPE Technical Report		3. DATES COVERED (From - To) 8 August 2011 – 7 August 2012	
4. TITLE AND SUBTITLE Behavioral and Temporal Pattern Detection within Financial Data with Hidden Information				5a. CONTRACT NUMBER 11-2338M	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S) Doron Drusinsky				5d. PROJECT NUMBER R6DA1	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School 1411 Cunningham Road Monterey, CA 93943				8. PERFORMING ORGANIZATION REPORT NUMBER NPS-CS-12-002	
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) Defense Threat Reduction Agency, 8725 John J Kingman Rd., Stop 6201, Fort Belvoir VA 22060-6201				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution unlimited.					
13. SUPPLEMENTARY NOTES The views expressed in this report are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.					
14. ABSTRACT <p>This paper describes a technique for behavioral and temporal pattern detection within financial data, such as credit card and bank account data, where the required information is only partially visible. Typically, transaction amount, transaction date, merchant name and type, and location of transaction are all visible data items, i.e., they are readily available in the financial institutions database. In contrast, the transaction status as a business transaction (using a personal card), a personal transaction, an investment related transaction, or perhaps a suspicious transaction, is information not explicitly available in the database. Our behavioral pattern detection technique combines well-known Hidden Markov Model (HMM) techniques for learning and subsequent identification of hidden artifacts, with run-time pattern detection of probabilistic UML-based formal specifications. The proposed approach entails a process in which the end-user first develops his or her deterministic patterns, s/he then identifies hidden artifacts in those patterns. Those artifacts induce the state set of the identifying HMM, whose remaining parameters are learned using standard frequency analysis techniques. In the run-time pattern detection phase, the system emits visible information, used by the HMM to deduce invisible information, and sequences thereof; both types of information are then used by a probabilistic pattern detector to monitor the pattern.</p>					
15. SUBJECT TERMS Runtime verification, Hidden data, Hidden Markov models, Formal specifications					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON Doron Drusinsky
a. REPORT Unclassified	b. ABSTRACT Unclassified	c. THIS PAGE Unclassified			19b. TELEPHONE NUMBER (include area code) 831 656 2168
			UU	21	

THIS PAGE INTENTIONALLY LEFT BLANK

1. INTRODUCTION

A Hidden Markov Model (HMM) can be considered a state machine in which state transitions and state outputs, or observations, are probabilistic. HMM's are used to learn and classify sequences of observables. HMM technology has been used successfully in a diverse set of applications, such as speech recognition [Da, Pi], Gene prediction [Rä], and Cryptanalysis [Si].

Because of the probabilistic nature of the underlying process being observed by HMM's, they are not used often to recognize long-periodic sequences. Rather, they are mostly used as discriminators, to determine whether one HMM is better than another. For example, an HMM-based speech recognition system may have each HMM represent a word, with run time voice recognition choosing the HMM that best fits the incoming sequence of speech features. This is in contrast with Deterministic Finite Automata (DFA) [HWU], Finite State Machines (FSM's) [KJ], or Harel-Statecharts [Ha, D1, D2], which are often used to identify and classify individual sequences. Stated differently, because HMM's identify individual sequences of external observables with a relatively low probability, it is usually not perceived as convincing evidence of the occurrence of a particular sequence.

Run-time Verification (RV) of formal specification assertions is a class of methods for monitoring the sequencing and temporal behavior of an underlying application and comparing it to the correct behavior as specified by a formal specification pattern. Some published RV tools and techniques are: the TemporalRover and DBRover [D3], PaX [HR] and RT-Mac [SLS], all of which use extensions and variants of Propositional Linear-time Temporal Logic (PLTL) as the specification language of choice, and the StateRover [SR] that uses deterministic and non-deterministic statechart diagrams as its specification language. In [D2], Drusinsky describes the application of RV using statechart assertions to the verification of DoD and NASA applications, and to those of the Brazilian Space agency.

In this paper, we use HMM's to identify hidden events and sequences thereof. However, we will not be using the (rather small) probability of an observable sequence, but rather the probability of a hidden state being reached *given* a sequence of observables. Hence, the technique identifies hidden events with a relatively high probability.

This paper describes a pattern detection technique suitable for financial systems in which not all artifacts are necessarily observable. The technique is a novel combination of Hidden Markov Models (HMM's) with RV techniques for probabilistic pattern matching of statechart patterns. Throughout the paper, we will be using the Statechart assertion formal specification language of [D1, D2]. We will show a probabilistic variant of this formalism suitable for pattern detection within systems with hidden inputs.

The technique in this paper is not positioned as a method for achieving financial gains in financial markets. Various papers investigating and analyzing such statistical techniques can be found in the literature, using artifacts such as long-term memory [MBH], self similarity [GMP], and fat-tailed distributions [SCLC]; in fact, power laws

are used to classify time series sequences in many other fields besides financial systems [L, TV, LC, LZ].

Rather, the technique suggested in this paper is positioned as a hybrid pattern detection technique that combines patterns written by humans with statistical observations – manifested as HMM's. In other words, it is positioned as a hybrid between formal specification and run-time verification techniques (e.g., [D1, D2, DMS]) and statistical pattern detection. Section 8 addresses the possibility of extending our approach to utilize some of the above mentioned statistical techniques such as long-term memory, fat tailed distributions, and various other fractal properties.

The rest of the paper is organized as follows. Section 2 provides an overview of behavioral pattern detection using deterministic UML statechart patterns. Section 3 provides an overview of HMM's and HMM related algorithms. Section 4 describes our proposed pattern detection architecture and process that uses a combination of hidden and visible data, using an HMM connected to a behavioral pattern detection monitor. Section 5 describes HMM parameter estimation for the financial data HMM component, and section 6 describes the operation of the pattern detector. Section 7 describes the operation of the probabilistic pattern-matching monitor, and section 8 describes three techniques for computing the probability distribution used by that monitor.

2. BEHAVIORAL PATTERN DETECTION USING DETERMINISTIC UML STATECHART PATTERNS – AN OVERVIEW

Consider the following natural language (NL) patterns for a credit card (CC) system; the NL pattern is specified as being *flagged* when a scenario conforms to the pattern:

R1. *Flag a customer whose average expense, over three consecutive non-holiday weekend clothing related transactions is of a Dollar amount greater than his or her $\mu + \sigma$, where μ and σ are respectively, the mean and standard deviation of the customer's clothing expenses during the previous year.*

Figure 1 depicts a statechart-pattern for R1. As described in [D1,D2], a statechart-pattern is a state-machine augmented with hierarchy, flowcharting capabilities, a Java action language, and a built in Boolean flag named *bFlag* whose default value is *false*, with a *true* value indicating that the pattern has been flagged (e.g., per pattern R1, flags that the input scenario conforms to R1).

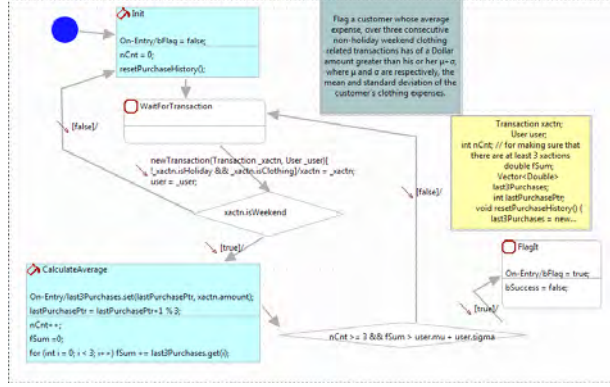


Figure 1. A statechart-pattern for requirement R1.

The statechart-pattern of Fig. 1 combines flowchart and state-machine elements. Rectangular boxes and decision diamonds are flowchart elements – the statechart flows through them while executing their actions and conditions, eventually resting on a state machine state like *WaitForTransaction* where the statechart waits for an event. Hence, the statechart flows through the *Init* flowchart box, executes its actions and waits in the *WaitForTransaction* state. When a user transaction occurs (*newTransaction* event, with two arguments, a Transaction object and a User object) the statechart checks whether the argument is a holiday and clothing related transaction. If not, then the statechart waits for the next transaction. If it is, then the statechart checks whether the transaction is a weekend transaction. If it is, the statechart calculates the average amount spent on the most recent three such transactions this weekend (see the *CalculateAverage* flowchart box). If this average exceeds the user's $\mu + \sigma$ then the pattern detection flag is raised (*bFlag* = true).

Pattern matching is performed by comparing a trace of the financial system (e.g., a CC statement or bank log) to the behavior of the pattern set. The StateRover tool does so using a two step process. First, a transaction log, or statement, is converted into an equivalent JUnit test [JU], and the pattern is code-generated into an equivalent Java class (details about this code generator are available in [D1]). Next comes an RV step where the JUnit test is executed, thus checking that the transaction log conforms to the pattern¹.

The extended pattern matching technique suggested in this paper uses the same process for the development of patterns, i.e., patterns are developed as deterministic patterns. However, rather than performing deterministic RV by the virtue of using a code generator that generates a deterministic pattern implementation, our technique performs probabilistic pattern detection using a special pattern code generator that generates a probabilistic, weighted implementation. Specific details are provided in section 6.

3. HIDDEN MARKOV MODELS

A (discrete) hidden Markov model (HMM) is a statistical Markov model in which the system being modeled is assumed to be a Markov process with unobserved, or hidden

¹ Note that we assume that for an instance of the R1 pattern – i.e., an instance object of the Java class generated for statechart-pattern of Fig. 1, exists per user.

states. While in a regular Markov model the state is directly visible to the observer, in a hidden Markov model the state is not directly visible, while the output, dependent on the state, is visible.

The parameters of a simple HMM are [Ra]:

- N , the number of states in the model. Individual states are denoted $S = \{s_1, s_2, \dots, s_N\}$, and the state at time t as q_t .
- M , the number of distinct observation symbols. Individual states are denoted $V = \{v_1, v_2, \dots, v_M\}$.
- The state transition probability distribution $A = \{a_{ij}\}$ where $a_{ij} = P[q_{t+1} = s_j | q_t = s_i]$, $1 \leq i, j \leq N$. Clearly, $\forall i, 1 \leq i \leq N, \sum_{1 \leq j \leq N} a_{ij} = 1$.
- The observation symbol probability distribution in state j , $B = \{b_j(k)\}$, where $b_j(k) = P[v_k \text{ at } t | q_t = s_j]$, $1 \leq j \leq N, 1 \leq k \leq M$.
- The initial state distribution $\pi = \{\pi_i\}$, where $\pi_i = P[q_1 = s_i]$, $1 \leq i \leq N$.

Rabiner [Ra] describes the following three primary problems associated with HMM's:

1. Given the observation sequence $O = O_1 O_2 \dots O_T$, and an HMM model $\lambda = (A, B, \pi)$, how do we efficiently compute $P(O|\lambda)$?
2. Given the observation sequence $O = O_1 O_2 \dots O_T$, and an HMM model $\lambda = (A, B, \pi)$, how do we choose an optimal state sequence $Q = q_1 q_2 \dots q_T$?
3. How do we calculate the model parameters $\lambda = (A, B, \pi)$ to maximize $P(O|\lambda)$?

The most well known algorithms used to solve these problems are:

1. The *forward algorithm*, for calculating the *forward variable* $\alpha_t(i) = P(O_1 O_2 \dots O_t, q_t = s_i | \lambda)$. The forward algorithm is a dynamic programming algorithm based on the recurrence:

$$\alpha_{t+1}(j) = [\sum_{i=1..N} \alpha_t(i) a_{ij}] b_j(O_{t+1}), 1 \leq t \leq T-1, 1 \leq j \leq N,$$

with the initialization:

$$\alpha_1(j) = \pi_j b_j(O_1).$$

Note that $P(O_1 O_2 \dots O_t | \lambda) = \sum_{i=1..N} \alpha_t(i)$.

α' is the normalized version of α :

$$\alpha'_t(j) = P(q_t = s_i | O_1 O_2 \dots O_t, \lambda), \quad \text{calculated recursively as:}$$

$$\alpha'_{t+1}(j) = \alpha_{t+1}(j) / P(O_1 O_2 \dots O_t | \lambda).$$

2. The *backward algorithm*, for calculating the *backward variable* $\beta_t(i) = P(O_{t+1} O_{t+2} \dots O_T | q_t = s_i, \lambda)$. The algorithm is a dynamic programming algorithm based on the recurrence:

$$\beta_t(i) = \sum_{j=1..N} a_{ij} b_j(O_{t+1}) \beta_{t+1}(j), \text{ for}$$

$$t = T-1, T-2, \dots, 1, \text{ and } 1 \leq i \leq N,$$

with the initialization:

$$\beta_T(i) = 1, \text{ for } 1 \leq i \leq N.$$

3. The *forward-backward algorithm*, for calculating the *forward-backward variable*

$$\gamma_t(i) = P(q_t = s_i | O_1 \dots O_T, \lambda).$$

γ is also:

$$\gamma_t(i) = (\alpha_t(i) \beta_t(i)) / P(O_1 O_2 \dots O_T | \lambda)$$

4. The Viterbi algorithm, for calculating the best state sequence that explains an observation sequence, $\delta_T(O_1 O_2 \dots O_T | \lambda)$. The algorithm defines:

$$\delta_t(i) = \max[q_1, q_2, \dots, q_{t-1}] P(q_1, q_2, \dots, q_t = s_i, O_1 O_2 \dots O_t | \lambda),$$

and uses the following recursive formula:

$$\delta_t(j) = \max_{1 \leq i \leq N} [\delta_{t-1}(i) a_{ij}] b_j(O_t)$$

along with the following formula, used to recover the actual most probable state sequence:

$$\psi_t(j) = \operatorname{argmax}_{1 \leq i \leq N} [\delta_{t-1}(i) a_{ij}], \text{ where } \psi_1(j) = 0;$$

The Viterbi algorithm is essentially the forward algorithm with a recurrence in which a *max* operator is used instead of the sum. The probability of best state sequence $\delta_T(O_1 O_2 \dots O_T | \lambda)$ is then the maximal $\delta_T(i)$, $1 \leq i \leq N$, and $q_T = \operatorname{argmax}_i \delta_T(i)$, $1 \leq i \leq N$.

The most probable state sequence q_1, q_2, \dots, q_T is calculated in a backward manner, using $q_{t-1} = \psi_t(q_t)$.

4. PATTERNS WITH HIDDEN DATA

Suppose our financial system would like to detect patterns that assert about data that is not explicitly present in the list of transactions, such as whether a transaction is business related (albeit using a personal CC or bank account), is personal, is suspect (as fraudulent), or is investment related. More specifically, consider the NL for pattern R2.

R2. Flag a customer that for a period of a week with at least two investment transactions, customer's investment transaction Dollar amount is 20% higher than customer's personal transaction Dollar amount.

Figure 2 depicts a statechart-pattern for requirement R2. Note that it asserts about visible information (e.g., *newTransaction* event and transaction *amount* data item) as well as hidden information (*hmmType*, being PERSONAL or INVESTMENT).

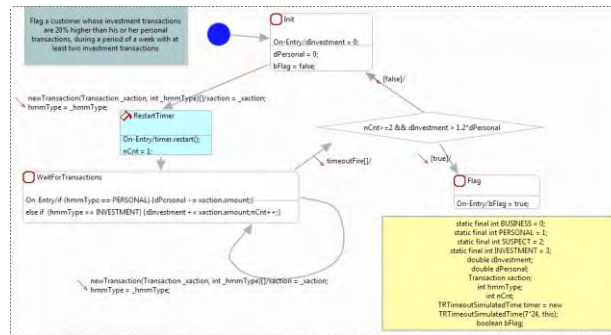


Figure 2. A statechart-pattern for requirement R2.

To enable pattern detection of a transaction log with respect to R2 and its corresponding statechart-pattern, we apply the pattern detection architecture of Fig. 3. Key components of the architecture are:

1. It contains a Hidden Markov Model (HMM), used to decode the probability of occurrence of sequences of hidden states given sequences of the observable transactions. The states of the HMM are: *Business*, *Personal*, *Suspect*, and *Investment*, referring to the four *transaction types* discussed earlier. This HMM provides a plurality of weighted transaction type inputs to the statechart-pattern, weights reflecting the probability the corresponding HMM state was reached given the observed transaction sequence.
2. It uses a special code generator that generates a probabilistic implementation for the statechart-pattern, one that operates on the weighted inputs from the HMM.
3. It evaluates the pattern using a success score in the range [0,1].

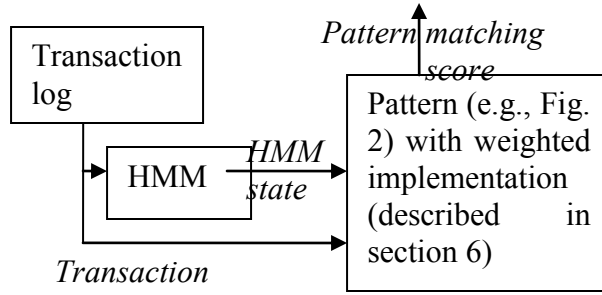


Figure 3. The pattern matching architecture for the transaction log and requirement R2.

The HMM parameters for this example are determined in the learning-phase discussed in section 5. They are:

- The state set Q consists of the four states mentioned above: *Business*, *Personal*, *Suspect*, and *Investment*, denoted as states 0, 1, 2, and 3, respectively.
- An observable O , which is a triplet describing the data combinations required by the HMM to determine the next state. For example the Boolean conjunction:

$isHoliday \wedge isAutomotive \wedge !isYouthExpense$, means the (visible) transaction occurred during a holiday, is not automotive related, and is related to an expense a young person typically makes. We represent each observable as a tuple of integers such as $\langle 2, 6, 0 \rangle$, where each integer component represents a condition.

Section 5 describes in greater detail the set of observable triplets for this example and the their associated learning process.

- State transition probabilities, given by the matrix A in Table 1.

Transition Source\Target	Buss.	Pers.	Susp.	Inv.
Buss.	0.35	0.46	0.05	0.14
Pers.	0.25	0.60	0.06	0.09
Suspect	0.37	0.39	0.23	0.01
Inv.	0.35	0.38	0.05	0.22

Table 1. Matrix A of HMM state transition probabilities

- Matrix B , containing $b_s(O)$, the probability of an observable O being observed in state s , part of which is presented in Table 2.

O\state	Buss.	Pers.	Suspect	Inv.
$\langle 0,1,0 \rangle$	0.01	0.11	0.01	0.03
$\langle 0,2,1 \rangle$	0.03	0.15	0.01	0.0001
$\langle 1,0,0 \rangle$	0.01	0.22	0.03	0.01

Table 2. A part of Matrix B , of probability of observation O in HMM state s .

- The initial state distribution is $[0.2, 0.65, 0.05, 0.1]$ for *Business*, *Personal*, *Suspect*, and *Investment*, respectively.

Pattern-detection now proceeds according to the process illustrated in Fig. 3, as follows.

Transactions from the transaction-log are fed into the HMM, which then executes a probability estimation algorithm, such as the forward-algorithm, for the current iteration (section 7 discusses three probability estimation techniques). These probability values represent probabilities of the HMM being in states *Business*, *Personal*, *Suspect*, or *Investment*. This vector of symbols and corresponding probabilities is passed to the pattern’s implementation code, which executes a weighted version of a state-machine state change, detailed in section 6. Finally, as discussed in section 6, the pattern detector announces the probability it flagged a pattern match.

5. FROM PATTERNS TO HMM PARAMETER ESTIMATION

HMM parameter estimation, i.e., estimating the transition probability and probability of state observations, is considered a difficult problem. In particular, it is difficult to estimate the number of HMM states, the extreme cases being using one state (i.e., reducing the HMM to a stationary process) or n states, n being the length of the observation sequence.

In our case however, HMM states are known; they are directly related to the hidden pattern artifacts. In our example, the four hidden symbols *Business*, *Personal*, *Suspect*, and *Investment*, are derived from Fig. 2 and its pattern specification R2, as well as from other patterns.

Our use-case for HMM’s induces a simple method for calculating transition and observable probabilities. Because HMM states relate to real world artifacts, we can conduct learning-phase experiments, which measure relative frequencies using standard frequency analysis. The financial industry performs such experiments as a matter of business [Se]. Table 3 illustrates the learning-phase process with a list of transactions taken from the authors CC statement; the author annotated the transactions with the corresponding HMM state, listed in the right-most column.

	Date	Merchant	Amt	
1	9/22/11	WHOLEFDS	57.25	P
2	9/22/11	TRADER JOE'S	113.35	P
3	9/23/11	IKEA	975.86	P
4	9/23/11	IKEA	68	B
5	9/23/11	UNION 76	38.46	P
6	9/25/11	M. LI DDS	38.8	P
7	9/30/11	UNION 76	25.6	P
8	10/5/11	DOG EAR PUBLISHING	175	B
9	10/6/11	UNITED AIR	1666.8	P
10	10/7/11	MCAFEE	45.99	B
11	10/8/11	GREAT TANS	49.25	S
12	10/9/11	CVS PHARMACY	30.27	P
13	10/11/11	K APT HOME OWNERS ASSOC	303	I
14	10/13/11	RADIOHACK	13.04	B

Table 3. A sample segment of the author's transaction log. The rightmost column indicates the HMM state as added by the author in the learning phase.

With this information the process continues by identifying the combination of visible transaction-log data, in the form of Boolean conditions, that according to the training user induces the states in the rows of Table 3. Table 4 presents this information.

	Condition	Condition	Condition	
1	Food			P
2	Food			P
3	Furniture	Weekend		P
4	Furniture	!Weekend	!Holiday	B
5	Automotive			P
6	Health			P
7	Automotive			P
8	Publishing			B
9	Travel	Amt>1000		P

10	ITSecurity	Amt > 40		B
11	Leisure	Youth Expense		S
12	Health			P
13	Residential	Non Local		I
14	Electronics	Weekday		B

Table 4. Conditions that induce the HMM states in Table 3.

The conditions of table 4 represent data items required by the HMM to determine the next state. In our example these items are: *isWeekend*, *isHoliday*, *isFurniture*, *isPublishing*, *isResidential*, *isElectronics*, *isHealth*, *isAutomotive*, *isLeisure*, *isYouthExpense*, *isITSecurity*, and *Amt* (Dollar amount). All data items with the prefix *is* are Boolean conditions. According to table 4, the *Amt* data can be divided into 3 mutually exclusive segments: less than \$40, between \$40 and \$1000, and above \$1000, denoted as *Amt*_{<40}, *Amt*_[40,1000], and *Amt*_{>1000}, respectively.

Note that the number of combinations of these data items is large: $3 \times 2^{11} = 6144$. However, most conditions are not necessarily orthogonal, but are often mutually exclusive. We identify three bins of mutually exclusive conditions:

1. Temporal – containing *isWeekend*, and *isHoliday* (when a certain day is both we say its *isHoliday*).
2. Type of purchased object – containing *isFurniture*, *isPublishing*, *isResidential*, *isElectronics*, *isHealth*, *isAutomotive*, *isLeisure*, and *isITSecurity*.
3. Age group for purchased object – containing *isYouthExpense*.

Using these three bins we encode observables as triplets, such as: <2,6,0> being: *isHoliday* ^ *isAutomotive* ^ !*isYouthExpense*.

HMM parameters follow from this information in a straight-forward manner. For example, the probability of a transition from state *Personal* to state *Business* is the ratio of number transactions with a *P* state whose next transaction is *B* state to the total number of transactions with a *P* state, being 0.375 for the data in Tables 3 and 4. Similarly, the probability of observable <2,6,0> in state *Personal* is the ratio of number transactions with a *P* state and observable <2,6,0> to the total number of transactions with a *P* state, being 0.25 for the data in Tables 3 and 4.

6. BEHAVIORAL PATTERN MATCHING IN THE PRESENCE OF HIDDEN DATA

Using the architecture of Fig. 3, the pattern-matching module observes sequences that consist of visible as well as hidden artifacts; in Fig. 2 for example, *newTransaction* is a visible event, while *hmmType* is hidden. Hidden artifacts have an associated probability distribution which we call the *probability-of-occurrence distribution (POD)*, such as *POD*-1: *hmmType*=*BUSINESS*, *PERSONAL*, *SUSPECT* or *INVESTMENT* at time 5 occurs with probability 0.1, 0.8, 0.05, 0.05, respectively. Section 7 describes three

techniques, called α' , γ , and δ'' , for computing the cycle-by-cycle POD, based on α , γ , and δ , respectively. We consider a visible artifact to have a probability of occurrence of 1.

A weighted/probabilistic implementation of the statechart-pattern module of Fig. 3 responds to an input sequence $I = \langle S_1, P_1 \rangle, \langle S_2, P_2 \rangle, \dots, \langle S_T, P_T \rangle$, where S_t is a visible or hidden artifact (i.e., event such a *newTransaction*, or data artifact, i.e., variable, such as *hmmType*, both in Fig. 2), and P_t is the *POD* of S_t .

We use the UML notation for S_t , $S_t = \text{event}_t[\text{condition}_t]$, where *condition_t* is optional; *event_t* and *condition_t* can either or both be visible or hidden.

A pattern implementation consists of a collection C of instances, or copies, of the pattern, called *configurations*. Each configuration executes as a standalone pattern and preserves its own present-state. Each configuration *Con* has a probability measure $P(\text{Con})$, called the *Configuration Probability Measure* (CPM), that measures the probability the pattern is behaving as suggested by *Con*, i.e., that its present-state is *Con*'s present state. Upon startup, C consists of a single configuration $\text{Con}_{\text{default}}$ whose present-state, denoted $PS(\text{Con}_{\text{default}})$, is the pattern's default state (e.g., state *Init* in Fig. 2), and having $P(\text{Con}_{\text{default}})=1$.

All configurations of C respond to a pair $\langle S_t, P_t \rangle$ of I , as follows. If $P_t = 1$ then the configuration performs a conventional state machine state change upon input S_t . Otherwise, either *event_t* or *condition_t* are hidden. In this case the configuration *Con* is replaced with two configurations: *Con1* and *Con2*, whose present-state probabilities are calculated as follows:

- If *event_t* is hidden (as discussed in section 7) then $P(\text{Con1}) = P(\text{Con}) * P_t$ and $P(\text{Con2}) = P(\text{Con}) * (1 - P_t)$. The calculation of the probability of hidden events is described in a companion paper
- If *condition_t* is hidden, then we calculate $P(\text{condition}_t)$, the probability of the condition, as a function of the probabilities of its constituent variables using standard probability calculations. For example, if *condition_t* is *hmmState = BUSINESS || hmmState = INVESTMENT* then $P(\text{condition}_t) = P(\text{hmmState} = \text{BUSINESS}) + P(\text{hmmState} = \text{INVESTMENT})$, where each term is taken from the POD at time t , such as 0.1 and 0.05 respectively, using *POD-1*.

We set $P(\text{Con1}) = P(\text{Con})P(\text{condition}_t)$, and $P(\text{Con2}) = P(\text{Con})(1 - P(\text{condition}_t))$.

Let $PS(\text{Con})$ denote *Con*'s present-state. $PS(\text{Con1})$ and $PS(\text{Con2})$ are determined as follows:

- If *event_t* is hidden then $PS(\text{Con1})$ is the next state determined by the pattern's transition out of $PS(\text{Con})$, under the assumption that the event fired, and $PS(\text{Con2}) = PS(\text{Con})$.
- If *condition_t* is hidden (e.g., *hmmState == PERSONAL* condition in Fig. 2), then $PS(\text{Con1})$ is calculated assuming *condition_t = true* and $PS(\text{Con2})$ is calculated assuming *condition_t = false*,

For the sake of simplicity we disallow patterns in which both $event_t$ and $condition_t$ are hidden.

C configurations are routinely (i.e., every cycle t) managed as follows. All configurations Con with the same present-state² are merged into a single configuration Con_{merged} , using the sum of all $P(Con)$ as $P(Con_{merged})$.

The statechart-pattern declares a *probability of flag (POF)*, i.e., the probability its corresponding NL requirement has been flagged, on a cycle by cycle basis, being the sum of all $P(Con)$ for all configurations Con such that $PS(Con)$ is an flag state.

Note that statechart-patterns typically use sink-states as flag states, sink-states being states with no outgoing transitions. For such patterns, the POF is monotonically increasing with time.

7. CALCULATING THE POD OF A HIDDEN ARTIFACT

We propose three techniques for estimating the POD at time t : the *alpha*, *gamma*, and *delta* methods, as follows.

- The *alpha* method, which uses N values of $\alpha_t(i) = P(q_t = s_i | O_1 O_2 \dots O_t, \lambda)$, one per symbol s_i , $1 \leq i \leq N$. Note that $\sum_{1 \leq i \leq N} \alpha_t(i) = 1$.
- The *gamma* method, which uses N values of $\gamma_t(i) = P(q_t = s_i | O_1 O_2 \dots O_T, \lambda)$, one per symbol s_i , $1 \leq i \leq N$. Note that $\sum_{1 \leq i \leq N} \gamma_t(i) = 1$.
- The *delta* method, which uses N values of:
 $\delta_t(i) = \delta_t(i) / \sum_{1 \leq i \leq N} \delta_t(i)$, where
 $\delta_t(i) = \max[q_1, q_2, \dots, q_{t-1}] P(q_1, q_2, \dots, q_{t-1} = s_i | O_1 O_2 \dots O_t, \lambda)$, where
 $P(q_1, q_2, \dots, q_{t-1} = s_i | O_1 O_2 \dots O_t, \lambda) = \delta_t(i) / P(O_1 O_2 \dots O_t)$. In other words, $\delta_t(i)$ is a normalized version of $\delta_t(i)$, which in turn is the probability of the HMM generating symbol s_i at time t , via the most probable state sequence, given the observation.

The gamma method is a backward-forward algorithm; it therefore requires the entire observable sequence $O_1 O_2 \dots O_T$ for the evaluation of $\gamma_t(i)$ for $t \leq T$. The alpha and delta methods on the other hand, are forward algorithms and therefore do not require future-time information.

When the HMM contains transitions with probability 0, then all three methods might induce sequences of symbols that cannot be physically generated. For example, consider an HMM with $N=3$ and $a_{1,2}=0$, and suppose $\gamma_t(1)=0.3$ and $\gamma_{t+1}(2)=0.2$; The pattern then considers the sequence s_1, s_2 as possible, having a positive probability of 0.06.

8. CONCLUSION AND FUTURE RESEARCH

We have demonstrated a technique for performing financial pattern detection in the presence of hidden financial data. Our technique induces a workflow for developing the components of the architecture of Fig. 3 - depicted in Fig. 4.

² More accurately, $PS(Con)$ is an extended state vector, that includes the state variable and the states of all local variables, such as the timer state and the *bFlag* flag.

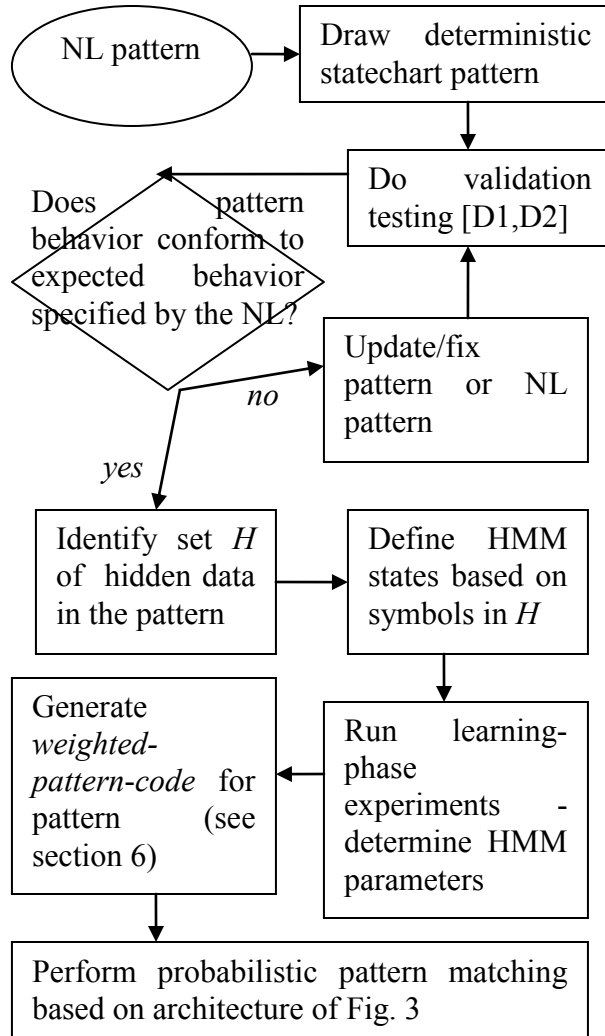


Figure 4. Workflow for developing the pattern matching components of Fig. 3.

We are planning to build a special StateRover code-generator that generates weighted/probabilistic implementation code for statechart patterns.

9. REFERENCES

- [Da] K.H. Davies, R. Biddulph, and S. Balashek, (1952) Automatic Speech Recognition of Spoken Digits, J. Acoust. Soc. Am. 24(6) pp.637 - 642
- [D1] D. Drusinsky, *Modeling and Verification Using UML Statecharts – A Working Guide to Reactive System Design, Runtime Monitoring and Execution-based Model Checking*, Elsevier, 2006.
- [D2] D. Drusinsky, *Practical UML-based Specification, Validation, and Verification of Mission-critical Software*, DogEar Publishing, 2011.
- [D3] D. Drusinsky, “The Temporal Rover and the ATG Rover,” in Proc. SPIN 2000 Workshop, 2000, LNCS 1885, Springer-Verlag, pp. 323-329.

- [DMS] D. Drusinsky, J.B. Michael and M. Shing, “A Visual Tradeoff Space for Formal Verification and Validation Techniques,” *IEEE Systems Journal*, Vol. 2, No. 4, Dec. 2008, pp. 513-519.
- [DMOS] D. Drusinsky, B. Michael, T. Otani, M. Shing, Validating UML Statechart-Based Assertions Libraries for Improved Reliability and Assurance,. Proceedings of the Second International Conference on Secure System Integration and Reliability Improvement (SSIRI 2008), Yokohama, Japan, 14-17 July 2008, pp. 47-51. Best paper award.
- [DS] D. Drusinsky and M. Shing, “Verification of Timing Properties in Rapid System Prototyping”, *Proc.14th IEEE International Workshop in Rapid Systems Prototyping*, 9-11 June 2003, pp. 47-53.
- [DDS] K. Demir, D. Drusinsky, and M. Shing, “Creation and Validation of Embedded Assertions Statecharts”, *Proc 17th IEEE International Workshop on Rapid Systems Prototyping*, Chania, Greece, June 2006, 17-23.
- [Ha] D. Harel, Statecharts: A visual formalism for complex systems. *Science of Computer Programming*, 8(3):231–274, June 1987.
- [E] S. Easterbrook, R. Lutz, R. Covington, J. Kely, Y. Ampo and D. Hamilton, “Experiences using lightweight formal methods for requirements modeling”, *IEEE Transactions on Software Engineering*, 24(1), pp. 4-11, Jan 1998.
- [GMP] S. Ghosh, P. Manimaran, and P. K. Panigrahi, Characterizing multi-scale self-similar behavior and nonstatistical properties of fluctuations in financial time series, *Physica A* , 390(23-24) 2011, 4304-4316.
- [Ha] D. Harel, “Statecharts: A Visual Formalism for Complex Systems”, *Science of Computer Programming* 8, 1987, 231-274.
- [HR] K. Havelund and G. Rosu, “An Overview of the Runtime Verification Tool Java PathExplorer,” *Formal Methods in System Design*, vol. 24, Springer Netherlands, pp. 189-215, 2004.
- [HWU] J. E. Hopcroft, R. Motwani, J. D. Ullman, *Introduction to Automata Theory, Languages, and Computation*, Addison Wesley, 2006.
- [JU] JUnit, <http://www.junit.org>
- [KJ] Z. Kohavi and N. K. Jha, *Switching and Finite Automata Theory*, Cambridge University Press, 2009.
- [LZ] M. Li and W. Zhao, Visiting power laws in cyber-physical networking systems, *Mathematical Problems in Engineering* , vol. 2012, 2012.
- [L] M. Li, Fractal time series — a tutorial review, *Mathematical Problems in Engineering* , vol. 2010, Article ID157264, 26 pages, 2010.
- [LC] M. Li, C. Cattani, and SY Chen, Viewing sea level by a one-dimensional random function with long memory, *Mathematical Problems in Engineering* , vol. 2011, 2011.
- [Ma] T.P. Mann. Numerically stable hidden markov model implementation. An HMM scaling tutorial, 2006.
- [MBH] L. Muchnik, A. Bunde, and S. Havlin, Long term memory in extreme returns of

- financial time series, *PhysicaA* , 388(19) 2009, 4145-4150.
- [Pi] John Pierce (1969). *Whither Speech Recognition*. Journal of the Acoustical Society of America.
- [Ra] L. W. Rabiner, A Tutorial on Hidden Markov models and Selected Applications in Speech Recognition, Proc. of the IEEE, Vol 77, No. 2, 1989.
- [Rä] Rätsch, Gunnar; Sonnenburg, S; Srinivasan, J; Witte, H; Müller, KR; Sommer, RJ; Schölkopf, B (2007-02-23). "Improving the C. elegans genome annotation using machine learning". *PLoS Computational Biology* 3 (2): e20. doi:10.1371/journal.pcbi.0030020. PMC 1808025. PMID 17319737.
- [SLS] U. Sammapun, I. Lee, and O. Sokolsky, "RT-MaC: Runtime Monitoring and Checking of Quantitative and Probabilistic Properties," in Proc. 11th IEEE Int'l Conf. Embedded and Real-Time Computing Systems and Applications, 2005, IEEE, pp. 147-153.
- [SR] The StateRover, <http://www.time-rover.com>
- [Si] S. Singh, The Code Book: The Science of Secrecy from Ancient Egypt to Quantum Cryptography. London: Fourth Estate. pp. 143–189. ISBN 1-85702-879-1.
- [Se] L. Sesera, Fundamental banking patterns, Proceedings of the 15th Conference on Pattern Languages of Programs (PLoP) 2008.
- [SCLC] M. K. P. So, C. W. S. Chen, J.-Y. Lee, ND Y.-P. Chang, An empirical evaluation of fat-tailed distributions in modeling financial time series, *Mathematics and Computers in Simulation* , 77(1) 2008, 96-108.
- [TV] L. Todorova and B. Vogt, Power law distribution in high frequency financial data? An econometric analysis, *Physica A* , 390(23-24) 2011, 4433-4444.

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center
Ft. Belvoir, Virginia
2. Dudley Knox Library
Naval Postgraduate School
Monterey, California
3. Research Sponsored Programs Office, Code 41
Naval Postgraduate School
Monterey, CA 93943
4. Dr. Robert Kehlet,
Defense Threat Reduction Agency (DTRA) -
8725 John J Kingman Rd., Stop 6201 (RD-BAT),
Fort Belvoir VA 22060-6201
5. Professor Doron Drusinsky
Naval Postgraduate School
Monterey, California